ADVANCED Management

OCTOBER 1959

Future Manager's Role in Automation

. . . gauge and dial watcher?

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Progress Through Enlightened Management

CONTENTS

"Through research, discussion, publications and other appropriate means, to conduct and promote scientific study of the principles governing organized effort in industrial and economic life . . . for the general betterment of society . . ." SAM CONSTITUTION.

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HOW TECHNICAL FUTURE MANAGEMENT?

by WALLACE A. BOUNDS

". . . in a plant of the late 20th Century the manager might appear somewhat in the role of a locomotive engineer watching gauges and dials; and then, pulling control levers."

Wallace A. Bounds,
Program Analysis Engineer,
Management Controls,
Boeing Airplane Company.

The Manager is the sensor as well as the collator and prime mover of the feed-back system."

WILL MANAGEMENT which relies more and more upon answers provided by the technical approach, itself become more technically minded in the second half of the 20th Century?

In the 19th Century and the first half of the 20th Century American manufacturing plants were small; profit margins wide; and change had a slow pace. During the maturing of the first industrial revolution in this period and particularly in the first half of the 20th Century the most reliable weather vanes used by a successful manager of a plant have been the balance sheet, P & L statement, cost schedules, manufacturing statements, budgets, ratios of one kind and another, etc. of an essentially sound accounting system. These tools were designed for and have their maximum usefulness in an operational picture that is relatively changeless, especially for the day to day operations. They will indicate the storms once they have developed and often provide information upon which very accurate forecasts can be made. These accounting tools have enabled discerning managers with broad experience to make sound decisions and to take appropriate action at the right time to effect solutions to operating problems. The function of the operating manager, to distinguish him from the administrator of higher management, has been, and will continue to be to use these accounting tools to indicate trouble areas—in being!

The time gap between an account of what has happened and corrective action will become more critical as operations become more and more complex in the second half of the 20th Century, as profit margins narrow, and as changes occur more rapidly in the operating picture. These tools, though still essential, will not be able to spotlight existing and future trouble spots that techniques now at hand can because they are *accounting* tools. They account for something that has happened primarily in terms of dollars. They were designed to do this, their primary purpose.

Sometimes a look at old business truths in a new light will reveal new facets of operations. In the second half of the 20th Century should business methods, organization, planning and control continue to be based upon intuitive-experience judgments in bridging this gap? Or, just how far can we go in taking advantage of the scientific approach without becoming mired down in technical hocus pocus? Should we be reluctant to bring in more and more of the techniques involved in the scientific approach because, perhaps, we are more familiar with the established lines of thought that arose in job shop days; or, can we put to work some of the techniques of Industrial and Production Engineering, Engineering Management, Operations Research and the like? These specialties have all grown up either consciously or subconsciously to provide answers to the problems presented by the greater complexities, the narrower profit margins and the increased tempo of change in day-to-day operations and have developed many useful techniques as well as some novel approaches to some old problems.

The manager is at the apex of the mechanism called an organization and consisting of people associated with one another along functional lines of interrelated responsibilities. In one sense he is the sensor as well as the collator and prime mover of the feed-back system. It is this area of feed-back control that continues to become more complex and more demanding with the squeeze of narrower profit margins and greater change rates.

Without considering the very important collateral human values which are intermeshed in the operating manager's problems, the fundamental functional problems, as though the plant were itself one large machine, may be stated as:

(1) Balanced fixed capital investment: where physical facilities are in balance with current average demands (adjusted by a "rise" factor for the justifiably optimistic) assuming the most up-to-date processes and methods;

(2) Balanced expensable investment: where perishable tools and expendables such as small jigs, fixtures, cutting tools, oils lubricants

and supplies are in balance with demands as determined by sales;

(3) Balanced labor force fully trained: the right number of the right kinds of skills on the right machines and operations at the right time;

(4) Balanced work-in-process inventory: the right quantities of the right materials at the right machines at the right times;

(5) Balanced finished goods inventory: the right quantities of the right products ready to ship at the right time.

Inventory has been split into two factors here in order to show emphasis on the finished goods inventory the balancing of which is, in one sense, the prime goal of the operating manager assuming, as above, the most economical use of capital to be inherent in the meaning of the word "balanced." In fact, if one had to isolate the one most important aspect in the process of decision making it would be "balance."

Any change in the sales mix will affect the finished goods inventory balance (if there ever was one) first. Before it can be set in balance again there must be changes in the work-in-process inventory to balance it to the new requirements; then changes in the labor force; changes in the expendable physical facilities such as small tools and tooling; and lastly, if required, the fixed investment must undergo change. Failures in any of these spill over into time.

The least responsive factor to a change in the sales picture and, therefore, the slowest in changing to meet demands is that of the fixed investment facilities. Fluid investment in current expendable assets such as jigs and fixtures, cutting tools, etc. is the next least responsive to required change. Labor distribution seems to be the next least responsive. The fourth least responsive factor to change is work-in-process inventory; and the most responsive is finished goods inventory, the balancing of which is the goal.

Of course, if new products that require new kinds of processing facilities such as new kinds of machine tools and tooling outside the existing line are added then there must be a major adjustment in all the factors, affecting the fixed assets initially and to a large extent; but this kind of change happens infrequently. Changes in sales fluctuations in the existing lines occur continuously. The assumption of the manufacture of a new product is primarily the result of policy decisions of one or more echelons of higher management, so that changes in fixed assets become more a problem of increasing the number or the replacement of certain kinds of machine tools the type of which is already on hand. This is within the province of established plant policy of meeting current sales demands for the existing line with minimum investment and optimum return.

The informational and, hence, control problems involved in the attempt to balance the capital investment factor and the expendable investment factor with current sales demands can be solved by a continuous analysis and formularization of relationships between volume sales trends and the essentials of these factors with statistical, mathematical and other analytical methods.

The balanced labor force will be attained if considered over a sufficiently large period of time, in spite of what may or may not be done, because some of the same kinds of things which cause production to equal sales in the long—but not the short—run also filter down and force this adjustment. This is not the problem. It is, rather, the minimizing of the amount of the disparity between effective labor input and labor demand, and the length of time that it has been out of balance. Two curves may be constructed to illustrate: one representing effective labor input and the other representing the labor demand (determined from sales), as in Fig. 1. The area between these curves represents the total imbalance.

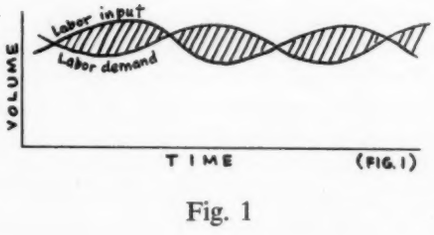

Fig. 1

The biggest problem with respect to a balanced labor force seems to lie in the failure to realize a change is required, its extent and required distribution early enough rather than in the procurement and training of the required skills. It may seem, however, that the procurement of suitable skills is the most difficult problem because this is the most evident deficiency when imbalance is most acute. This is in respect to the balance of the requirement and the supply involved in changes rather than for steady operations which never existed. Here, too, there are statistical, mathematical and other analytical methods available to close the time gap in making adjustment to fluctuations in item sales quantities without waiting for the automatic competitors to solve the problem.

It can be seen that both a balanced work-in-process and finished goods inventory are dependent upon the three foregoing factors as well as upon the normal supply problems such as accurate determination of requirements in the time dimension with respect to changing sales volumes or products, vendor and shop lead time, break-down in procedure, etc. These problems are amenable to solution by similar analytical means and corrective action.

Taking the operating plant as a whole, the point to be made here is that the problem of attaining a balanced finished goods inventory and therefore to obtain the optimum sales volume is a need for integration of the very closely interdependent solutions to the problems inherent in the five listed factors simultaneously and continuously.

It follows, therefore, that an organization with the problem of producing for the maximum sales at minimum cost in an economy where profit margins have narrowed, problems have become more complex and the change rate has increased should be organized on the basis of best solving these main problems of balance on a continuous basis. The primary difficulty in solving this over-all balance problem is the realization that the key factor underlying it is the recognition that change in the operating complex is prime; that is, the organization must be able to handle variables that are interrelated on a continuously changing basis. If this is true, it follows that a manufacturing concern best geared to change in the sales picture will come closest to

e optimum use of investment. This annot be done with an old fashioned b shop organizational structure.

A discussion of one or two of the any ratios now used by an operating anager will indicate further the area f application of some of these techques. They are relied upon often to ve indications of conditions and ends and some of them can be given more thorough analytical treatment yield even more valuable information. Take, for example, the ratio of ork-in-process inventory to standard ost of production and the ratio of ork-in-process inventory to standard ost of entered orders. Both these ratios re useful by themselves but it will eadily be seen that if manufacturing ead time is 90-120 days then the latter s far more likely to bear upon probms that begin to arise immediately s a result of changes in sales and not how up in the former ratio for 90-120 ays which is long after its maximum sefulness. The former ratio can only e useful if conditions are steady and nchanging, which, of course, they ren't.

Suppose, however, that a new ratio sing these two ratios is made. The ork-in-process to standard cost of roduction can be put in the numerator nd work-in-process to standard cost f entered orders in the denominator. his is called a cross ratio. As it varies rom the value of 1.0 it can tell much bout operations as a whole from the tandpoint of the ability to adjust to hanging demands.

Here something should be said about he determination of production schedles. In a plant with multiple but closey related products where there may be 00 different products, half of which an be safely made in some quantity n advance of sales (and the other half annot be), we have to decide upon ome kind of formula or ouija board ethod to determine what, when and ow many of each so-called speculative em to make. The problem would not ave the same significance if lead time rom the time of receipt of an order to ompletion of the product were, say, ess than two weeks; but lead time is irectly proportional to investment in work-in-process inventory, so that if ead time is long, inventory will be arge. For each day a dollar's worth is tied up may cost more than $.001 and for $1,000,000 this is $1,000 per day! Where it may be three months or more, the problem of detecting trends soon enough, making adjustments in schedules, in the labor force, in buying, in expendable tooling and in fixed assets in time and so that all changes and adjustments made are in the proper relationship continuously to one another is perhaps typical of a great number of manufacturing plants and is the theme here.

The prime operating goal as set forth is to maintain a balanced finished goods inventory to meet the sales demands while at the same time balancing all the other controlling factors with them and each other continuously in order to realize maximum return on investment. Of course, one way to assure meeting sales demand is to make a supply as great or greater than the widest fluctuations that can occur in a given lead time and to add a cushion of 30-60 days for unforeseen contingencies, but this would mean that a large and risky investment must be made, tying up capital which could be used to greater advantage elsewhere, or throwing it away on obsolescence. The determination of the most economical scheduling formula and cushion for each individual product can be determined by statistical and mathematical processes. That is, each item may have its own individual scheduling formula which takes into account frequency and size of orders, set-up costs, seasonal influences, etc.

Sales and production curves might be plotted and could look like this:

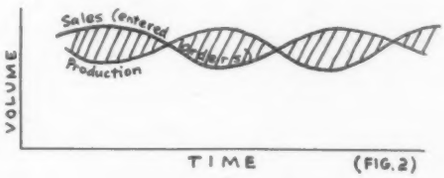

Fig. 2

The accountant uses shipments instead of entered orders for his sales figure because this is the point at which the cash register can be rung, but from an operational standpoint entered orders that are analyzed not only can tell the changes that will be required but also can yield many answers to some of the prime problems which will arise during the lead time period when this same mix will have to be made. Here it is assumed production equals schedules.

The two curves (Fig. 2) oscillate back and forth across each other, analogous to "hunting" caused by a faulty governor on a machine. This is almost a must when we gear our operations to a formula based upon something like, say, the last four months sales average without adjustment for rise or fall and when it is for products of normal fluctuations. This kind of a planning and scheduling formula is necessary for application to particular items of manufacture that are erratic in the short run of 3 or 4 months, say, but are reasonably steady in the longer periods. In fact, for some of the more erratic items it is rather risky.

It will be noted that the area between the curves between points of intersection must be equal in the long run by the law of business survival; and the smaller it is the more efficient the capital utilization. All the area between the curves, however, is wasted investment, unless also partly used to dampen labor force fluctuations. It is wasted in the sense that it is non-earning but should be largely recovered except in obsolescence.

For a major group of items a basis, wherein a closer average is determined by adding the most recent month's sales figures adjusted to the normal month to the previous average and dividing by 2, would be even better in making the graph look like this:

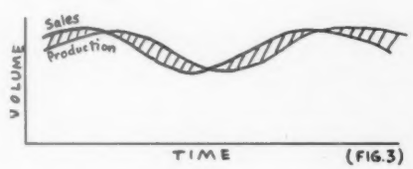

Fig. 3

This would be a much better picture from the standpoint of efficient capital utilization. The ideal, of course, would be where the two lines continuously coincide in which case the area between the curves would be zero. However, since the precise solutions to problems arising in the five factors are

not always practically possible a zero area is not attainable.

The cross ratio of WIP:Std Cost of Production to WIP:Std Cost of Entered Orders, or any other ratio concerning inventory, ultimately is only significant with respect to sales; and, therefore, to a balanced finished goods inventory.

Mathematically the primary objective of a balanced finished goods inventory might be stated in terms of making the areas between curves of this kind equal to or as close as possible to zero as noted above; but failing that: to make the area over and under the production curve (to choose one of them) balance out in as short a time as possible since the fundamental law of business survival will make them balance in the long run.

Other time-honored ratios are useful and can be made more useful when analyzed with respect to sales. Some, however, are no longer valid in the rapid change from the first to the second industrial revolution. One of the latter, in particular, is the ratio of indirect to direct labor. During a relatively long period of time in American manufacture when the first industrial revolution had fully developed and remained fairly stable it was quite useful. With the rapid approach of the second industrial revolution, wherein the key distinction is feed-back control by other than human means, it can be down-right deceptive. It will be remembered that the distinction between indirect and direct labor is fundamentally arbitrary and has no basic continuing validity. This might be illustrated by the hypothetical shop having 10 direct and 10 indirect people; and then to have a new machine or machines installed which reduces the required direct operators from ten to five. When the second industrial revolution has fully matured, the plant will be fully automated and there will be no direct labor operators in the present sense. In this situation the ratio will be infinitely large, so in the transition period it is deceptive at best for traditional purposes.

Something might be said about the relative ease of the solutions to most of these informational problems which will come about upon the installation of analogue electronic mass data processing systems which will solve most of the significant problems amenable to statistical, mathematical and certain procedural methods, continually leaving time for the manager to go on from there in the art as distinguished from the science of management. But since we are not there yet we are more concerned with the transition period during which the techniques can be applied to advantage. Indeed, in a plant of the late part of the 20th Century the manager might appear somewhat in the role of a locomotive engineer watching gauges and dials; and then, pulling control levers.

Manager becomes technician!

Far from it, but some of the same preciseness of the technician will become a part of the manager.

Management experience for the operation of a manufacturing plant involves the deepest and broadest background possible. There is now and will be an especially great premium on this kind of experience; because, as the enterprise grows larger and more complex the premium becomes even greater and chances for deficiencies in the background increase. The broad background having value is not so much the individual items that an executive has learned over the years, although they are essential; but it is their proper relationships to each, other the ready and continuous seeing of which enables a right decision when required and the right analytical thinking in organization to solve operating management problems. There are many things in the management area which have definite relationships that are amenable to codification, as indicated. The premium on this broad background can and will be reduced in the second half of the 20th Century through the increased application by management of scientific techniques. ■

Measurement

"I am sure . . . that we all understand the place of measurement in the scientific field. The true sciences — so-called exact sciences such as physics — only became exact as they were able to measure the phenomena which were observed or produced by experimentation. Other sciences, such as sociology, are sometimes called pseudo-sciences because of the negligible degree to which true measurement can be used in them. Progress in Metrology, the science of measurement, underlies progress in all other sciences. Similarly industry and commerce live by the arts of mensuration. Apart from these obvious aspects, the term "measurement," being so linked with Western culture, cannot help but have innumerable connotations according to one's own race, education, religion or social position. . . .

"Measurement itself has no virtues nor is it creative. It is a cold technique. It may provide a basis for the operation of intelligence, but it does not replace intelligence. It is not of itself noble, or prophetic, or kind, or wise. It may be the enabling element in fantastic human gains, yet it is not to be spoken of in the same breath with the vision and understanding of those who use it as a tool for human betterment. I trust that we may find ourselves in that group."

—Ralph Presgrave,
in "Measurement—A Tool for Management"

KEY QUESTIONS ON GENERAL MANAGEMENT TASKS

by **LEO MURPHY**

"There are some managing tasks the head of a business cannot completely delegate"

IMPORTANT changes in management thought have occurred in recent years and industry has been forced to modify or abandon many of its earlier beliefs. The management of a business can no longer be regarded as merely an assemblage of functions. It has been found that nearly all problems of managing are inherently inter-functional, and that there are only business decisions, business risks and business profits. Furthermore, long-range planning can be made operational only if greater recognition is given to the manager who uses it in his decision-making, thereby contributing to future profits. These and many other changes in management concepts have now been substantiated.

Here we attempt to outline the problems of managing that cannot be completely delegated by the head of the business, while at the same time bringing together some of the key questions on the tasks of general management. However, it must be noted that we are not considering those problems that are peculiar to the coordination of several decentralized businesses; just the single business is under consideration here; it may be a separate corporation or a part of a larger corporation.

Delegation in any business is, of course, essential, but there is invariably a portion of the work of managing that only the head of the business can do. To delegate or "functionalize" this work is to abdicate.

What, then, is the work of the head of the business? There is no easy answer to this as it is largely determined by the type and size of the individual business. However, there is a certain pattern which is common to most businesses. Of the many problems of managing that exist, several require the participation or

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guidance of the head of the business, and it is these problems which form the basis for describing his work, and constitute the tasks of general management.

Twelve Problems

Twelve of these problems or tasks have so far been recognized, and some very practical thinking has been developed on each of them:

- Clarification of the General Strategies of the Business
- Identification of the Problems of Managing
- Formulation of Management Policies
- Organization Planning
- Evaluation and Development of Managers
- Predicting Environmental Forces Affecting the Business
- Determination of Pricing and Investment Criteria
- Planning New and Improved Products
- Appraising Overall Business Performance
- Resolution of Business Plans
- Surveillance of Relations with People
- Assignment of Improvement Projects

Check on Conclusions

The application of deliberate and persistent thought to each of these problem

A Work Sheet on the Tasks of General Management

Clarification of the General Strategies of the Business

What is your business? What are your resources—physical, financial and human? What does your company do best? Worst? What must you do well? What should your business be? What diversification and growth limitations are imposed by your resources, particularly your managerial abilities? What is your general approach and strategy in financing and dividend paying? In marketing? In research and development? In production and make-or-buy matters? How do you factor survival considerations into these general concepts?

Identification of the Problems of Managing

What can be managed? How do you break up the total work of managing the business into smaller more manageable integers? Are these integers the critical continuing problems on which management practices must be formulated? Which problems cannot be completely delegated—organization planning, resolution of business plans. . .? Which problems can be completely delegated—sales order processing, plant layout. . .? In what ways can operations research and electronic data processing contribute? Are all aspects of the business being managed, including all cost reduction opportunities?

Formulation of Management Policies

What do operating managers complain about? How can you cope with each critical continuing problem, providing unity of direction on it to all concerned? Why is it a problem? What are its objectives? What interactions exist between this and other problems of managing? What is the best practice to date? What underlying considerations and decision strategy should be reflected in the policies? What managers and what functions are involved in this problem? Can cooperation between functions be structured into the management practices? Is a maximum of self regulation and control built into these practices so that cumbersome communication and review is minimized? each manager participate in the formulation of all manag practices in which he is involved? Is every effort made to rate procedures from policies?

Organization Planning

What managers, staffs, supervisors, and committees a quired for the work of managing, now and in the future? reporting relationships will make them most effective? specialization is indicated? How can the work of managi simplified, or distributed more evenly, by the reassignm duties? Has each manager's position been structured, and fied, in terms of the critical continuing problems of the bus and the results expected?

Evaluation and Development of Managers

How do you provide for sufficient kinds and numbers of agers to fill present and future positions set up through o zation planning? What steps are involved in getting, ke developing, motivating, and rewarding managers? How d evaluate the individual manager? Is all experience good, some useless or even harmful? What achievements has manager made, and how did they contribute to curren future profits? What achievements should he plan? Ar predictions usually right? Does he make sound decisions? he often "pitch in" and work effectively with subordinate equals? Does he coach well? Can be really delegate? ever irrational with subordinates? What pertinent characte personality traits are evaluatable? What reasoning and cr abilities does he have, particularly on underlying matters? knowledge does he have about the following: (a) The n of a business—innovation, long-range planning, busines whole approach. . .? (b) The substantive problems of m ing—formulation of management practices, production sc ing. . .? (c) The techniques of managing—conference l

rovides a completeness of approach ot otherwise possible. Furthermore, the verlapping that results from this multi-focusing on the business offers a realistic "check and balance" on conclusions reached. As in any truly pluralistic approach, the conclusions can often be verified in alternate ways.

Taking Inventory

In the belief that the right question is the key to understanding, the following questions are used to indicate the conceptual framework of each of the above problems. This is a "work sheet" for taking inventory — to make sure that all the essential work of managing is being considered, and to ascertain in what way and by whom it should be done. These are the types of questions that are currently being asked in industry, and any manager should find them useful in his searchings for insights into the problems of managing.

This "work sheet" of questions on general management has used many of the new concepts introduced by Peter Drucker, Bernard Muller-Thym, Ewing W. Reilley, Joel Dean, Hasan Ozbekkan, and others. In its preparation the counsel of Philip Shay was invaluable.

We must, however, acknowledge that we have merely mentioned the "Nature of a Business"; actually, it is an entirely different way of looking at business management and deserves a great deal of attention. Some particularly useful thinking on this has recently been presented in Peter Drucker's article on *Business Objectives and Survival Needs,* in the April, 1958 issue of *The Journal of Business.*

communication. . .? What should his self improvement be? Has he been given a fair chance? Has he been under- Overpaid? How should he be assigned so that his own th and his contributions to the company will be optimized?

icting Environmental Forces Affecting the Business

w will anticipated changes in the following affect the busi- and vice versa: National and international business condi- Value systems of society? Actions of governments? Busi- conditions in customer industries? Business conditions in own industry? Competition, direct and indirect? Cost of material, equipment, and capital?

mination of Pricing and Investment Criteria

ere do profits come from? Have all of the relationships en products, volume, resource commitment, risks, and been studied carefully enough so that valid pricing and ment criteria can be devised? What are the survival profit ? Are prices always maximized? What is the optimum of products? Is the present worth of future income rly discounted?

ing New and Improved Products

w do you get teamwork into product planning—marketing, ch and development, production and finance? How long he present products continue to be profitable? What will markets require? What product changes can be expected the competition? What technological innovations are possi- What research and development projects should be under- Are innovative and evolutionary efforts properly bal- What are the difficulties in producing and marketing opos d products? What do customers complain about? duct standardization reviewed regularly, along with qual- el and style?

Appraising Overall Business Performance

What can be learned from past performance that will be helpful in planning for the future? Are overall reports prepared on an inter-functional basis? What managerial accounting statistics are necessary for the tasks of general management? Other statistics? Can these statistics be used alone or must other non-numerical information be taken into account? Is every effort made to minimize the volume and frequency of information reported? Do tax regulations on computing profits coincide with reality in all cases?

Resolution of Business Plans

What sales and profit goals can be expected from the commitment of your resources, present and anticipated? What assumptions were made in the creation of the plans? What operating expenditures and capital investments will be necessary? What cash flow will occur? Do all operating managers participate in the resolution of business plans? Are alternate plans carefully considered? How far into the future do your decisions commit you? How far must you plan? Do you regularly review the suitability of your business plans? Is your method of revising the business plans flexible enough to permit frequent changes, if necessary?

Surveillance of Relations with People

What business ethics apply in your relations with customers, stockholders, employees, unions, suppliers, competitors, governments, and the public? How can a favorable image of the company best be communicated to them?

Assignment of Improvement Projects

How do you foster improvements not directly related to product specifications? Is change recognized as a part of reality and properly planned for? Are each of the problems of managing adequately handled? What major surveys are needed? Who is available and has the ability to conduct them? When are outside consultants advisable?

"Too often commercial research has become too formalized with statistical method and too ritualized with scientific pretense."

Management versus the Failure of Commercial Research

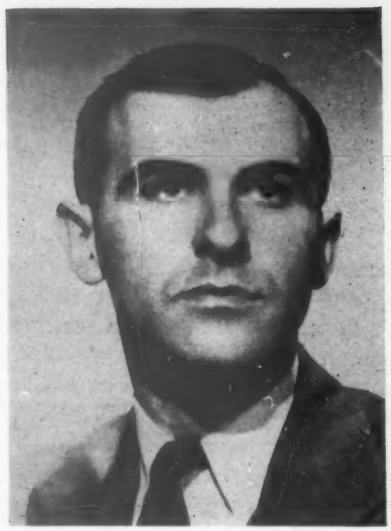
by THEODORE LEVITT

THE MARKET RESEARCHER, the psychological and motivation researcher, the sales analyst and planner, and the economist are in business to stay. They form an elite corps of corporate functionaries on whose findings and recommendations top management increasingly relies. The question is: How good a job does commercial research do? How can it be improved?

The vaunted values of commercial research have been praised with prideful self-seriousness by its dedicated practitioners. For a line executive today to express some misgivings is to mark him as a Philistinistic reactionary who should be ridiculed into silence. An expression of misgivings from a practitioner himself may therefore be more acceptable, lacking in professional grace though that may seem to be.

The fact is that there is an enormous gulf between what business and professional journals and textbooks say commercial research can do for business and what it so often succeeds in doing. As in all fields, aspiration does not assure realization. There's something missing somewhere.

Getting right to the point, the missing ingredient in so much commercial research today is imaginative audacity. Too often commercial research has become too formalized with statistical method, and too ritualized with scientific pretenses. Moreover, in picking commercial researchers, management is often too preoccupied with getting personable teamworkers — sound, level-headed, feet on the ground, cooperative, prosaic, and dull. The process of natural selection turns too many commercial research departments into elaborate machines single-mindedly devoted to the ceremonial reiteration of



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the commonplace. Under these circumstances even a brilliant man may be engulfed in what becomes a sea of mediocrity, soaking it up like bread soaks up gravy. But usually he doesn't get hired. Usually he ends up in the more permissive society of a good university, as the inside man in some go-getting consulting organization, or in an advertising agency. The typical operating corporation either doesn't hire him, forces him out after he sees what the score is, or transforms him into the dull counterpart of those who hired him. After a while, a merely fair job of analysis or run-of-the-mill idea gets labeled as being exceptional because mediocrity has become a norm passing for quality. Management never learns about the dramatic potentials of commercial research. It erroneously thinks that what it's getting exhausts what's possible.

But saying that management has only itself to blame may overstate things a bit. The researchers themselves are far from innocent. They usually visualize their function too narrowly. They consider insight to consist of and end with defining the problem and designing and using a statistical research apparatus with which to tackle it. Huge quantities of data are collected, sorted, sifted, arrayed, manipulated, averaged, tabled, charted, and finally disgorged in an orgiastic consumption of time and money. What emerges is an elaborately dolled-up report designed to create an aura of unassailable and incontrovertible fact—repetitious, routine, and old hat as it may be. Even when the results are new, they are likely to *look* old because they are presented in a dull businessese or in a sort of anemic popularization of professional jargon.

The Failures of Commercial Research

Commercial research is today presumed to teach line executives better to know the market, the customer, the economy, and the future than they were able to know in the old days of rules of thumb, feel of the market, inspiration, hunch, and prophetic insight. With the help of commercial research management is supposed to be able to know more, think straighter, plan better, and risk less. Much of this presumed value of commercial research is achieved, and management is often profusely grateful. But there is another side to the coin — a very unedifying side. The unhappy fact is that while perhaps clarifying much and helping greatly, commercial research often unintentionally covers up more. Under the statistics, and in the name of systematic, scientific analysis and presentation of its findings, there lies the smothered skeleton of the potentially vibrant creativeness and spark to which the company could be pushed if things were done differently.

In other words, there is a serious question of whether commercial research may not in many cases actually be sucking much of the vital force out of a company by the very process of its thoughtful, scientific, analytical approach to business problems and issues. The dignification of problem solving and forecasting by means of elaborate surveys, studies, and statistical manipulations may be submitting everything into a dreary Procrustean mold which automatically precludes suggestions and ideas that are not directly or easily measurable or statistically verifiable. Hence the method of science, instead of being a liberator, is a confiner. Instead of encouraging new, dramatic, inspiring, provocative ideas and opening new doors, it may discourage and smother them. If they don't appear to be quantifiable or immediately capable of objective testing, they're not likely to get a hearing. To get and keep a reputation for scientific dignity and level-headed probity often confines commercial research to doing the respectable and the easily defensible. By establishing throughout the company the pseudoscientific principle that all proposals must be verifiable and testable on paper, the commercial research department may exercise a disproportionately restrictive influence on the whole company. It may keep others in the organization from the kind of venturesome, audacious, provocative thinking which cuts through convention, prescription, and routine and which characterizes protean innovationist thinking at its best.

The Function of Expertness

Commercial researchers provide important services. Nobody in his right mind suggests anything different. But the point is to get commercial research to function at its best. This means researchers must be more than merely good craftsmen. They must be innovationists in both research methods and in practical commercial ideas. Above

all, they must make their professional expertness produce meaningful, usable results rather than employing it merely as a shield against facing up to solid responsibility.

What does this mean and what does it involve?

First, it involves knowing what expertness is for. Expertness encompasses much more than the elaboration and use of formal techniques in research and analysis. More than anything else it should be viewed as involving imaginative audacity in the interpretation of data and events and in formulating positive action-oriented proposals for management's consideration.

Imaginative expertness has a special license. It doesn't have to document and prove everything it says. It has the right to cut through the mountainous accumulation of data, and to bypass the sinuous analytical maze of respectable methodology in order swiftly and decisively to reach findings, elaborate conclusions, and suggest policies. Without that right the expert gets no credit for his expertness and his employer no extra benefit from his specialized skills. If he has to lay a stack of detailed analytical materials on the table in order to substantiate every comment, he's a technician, not an expert. An expert is somebody who has earned the right to speak up without necessarily putting up.

Staff expertness must function as expertness is intended to function. If an expert is going to confine himself to what is provable, if he is going to play it safe by clinging dependently to his data, nobody gets any benefit from his expertness. Expertness must cut through and around facts. It must imagine what the facts do not clearly encompass. It must begin where the clearly verifiable ends. This is what the old time business entrepreneur did before the advent of professionalized commercial research. He went on hunches and on feel for the situation. He extended his imaginations in the service of the improbable and the expectation of the non-anticipative. Because he had so little data he was often grievously wrong. Now, with more data, the point must be not to become the slave of data, but their master. Data tell nothing: only people do. Data must be interpreted. But even interpretation is not enough. Data must be used creatively and imaginatively.

Pseudoscientific Commercial Research

But the triumph of the data merchants in commercial research too often inhibits this kind of effort. Too often nothing is permissible in the way of making policy or entertaining ideas unless the data are so unambiguously in favor of such policies or ideas that even the elevator operator can see it. Such rigid standards can be fatal. To wait until the data clearly tell what should be done is to wait until they're so overwhelming that it's too late. Change should be made before the fact that it is imminent materializes to the point of competitors or conditions having already taken their toll.

The only time data speak so clearly that everybody gets the point is when it's too late. Then they speak not with a gentle whisper or a subtle hint, but with a devastating and perhaps mortal blast.

The older dependence on hunch, inspiration, and self-confident pushing is by today's standard a quack approach to management decision-making. But today's approach is all too often quack in its own elevated way. Where the older method was often like metaphysics, today's is often like pseudoscience. The worse of the two is the latter, because pseudoscience has a nasty way of becoming a prescription for inaction. Science makes and tests hypotheses — that is suggestions designed to explain phenomena, behavior, or operations. Above all, it's open-minded and experimental. Too often commercial research is just the opposite. Instead of opening doors it closes them. If every statement must be quantifiably verified—if that is what science pretends to be—it becomes a triumphant inhibitor of the unusual and the imaginative. If it is the censor of offbeat ideas and suggestions, if it permits the emergence only of the routine statics that are reducible to the calculating machine—if it does this, it is a sorry day for the dramatic innovationism that characterizes a creative society.

Looking around, there are lots of places where what passes for innovation is only a process of fringe adaptation to marginal adjustments arising out of small ideas and lesser inspirations. Yet in retailing, in distribution generally, in planning, in control, and in any number of product lines hundreds of firms are doing little more than drifting with events. They have not learned the commercial importance of being active agents of their environment — that they are more than merely a part of it: they help create it. The firm that doesn't constantly try to change itself and its environment becomes vulnerable to the changes made by others. Today in business there's no such thing as respectability going to the firm that preserves the glories and pretenses of the past. This merely incubates organizational inertia and debilitation. The company's metabolism counts this debilitation with unerring accuracy, even if its management doesn't.

Commercial Research and Responsibility

But what business is all this of commercial research? It is everything, because one of its minimal functions is keeping track of the metabolism. Its duty is not only to know what is happening to the company, but also to prescribe what should be done to achieve what ought to be happening. This again requires imaginative audacity. It requires chucking the paralyzing opiate that staff work is staff work and line work is line work and never the twain shall meet. Staff work conceived this narrowly is *irresponsible*. Unless it has a sense of responsibility for what happens it will not view its task as encompassing anything more than simple data collection and processing. It is a prescription for intellectual and imaginative sterility. For if staff has no responsibility for what happens to the company, staff work cannot be expected to have the kind of strident zeal which breeds ideas, inspirations, suggestions, imaginative application of knowhow.

One function of top management, then, is to make staff departments responsible for what happens to the company. But responsibility without authority is useless. Management must do one more thing. It must give the direct head of commercial research top management status. If the company has a largely inside board of directors, he should be a member. If it has a largely outside board, he should be on the highest policy committees. If commercial research is to be made responsible it must know what is going on in the highest policy circles, and it

ust have direct authority to influence gh policy. If management does these ings it will force commercial research go beyond simple data analysis and to policy considerations that require onstant alertness to the possibilities ggested by creative interpretations of ommercial data.

Thus, when the market researchers peatedly turn up figures showing de- ining market position, they should be eld responsible and hold themselves sponsible for explaining why. But eyond that, they should be responsible r suggesting ways to turn the tide. hey cannot be permitted the easy lux- y of saying that this is "Sales Dept.'s b" or "line management's job." A mpany cannot permit an atmosphere which commercial research person- el, viewing the statistics they turn out, erely sit on the sidelines lamenting e failure of the top brass to "do mething." It is staff's own uncom- romising duty to "do something"; to nd out what is wrong and what is ght and to assume the responsibility r suggesting remedies — and to do l this without special management rodding.

When it comes to actual forecasting, nd particularly to long-range forecast- g, staff's responsibility takes on an- ther dimension. The usual building lock technique of basing future esti- ates on simple projections of popula- on growth, consumption rates, man- ours of employment, per-worker pro- uctivity, etc. — that is, on the exten- on of present rates of change of par- icular variables—these are clearly not nough. They have the simple merit of atistical meaningfulness. But they k the more complex and difficult uantity of judgment. They lack vision nd spontaneity. They lack the most portant component of all: prophetic agination. Long-range, and even ort-range, forecasts must ask and try answer such questions as: What, in l its subtle and various ways, will the conomy and our specific market be e in the future? How are customer stes and attitudes likely to change nd what must be done to capitalize such changes? How can the com- ny's manufacturing, products distri- ution, and marketing be modified to lp create a more progressive and rofit ble future? What will competi- on be like in five or ten or twenty ars? What can the company do to modify customer tastes and preferences and turn them to the company's advantage?

These questions and their answers require cultivating a special capacity in commercial researchers. They require a prophetic attitude for which statistics is the starting point; for which deep, extensive understanding, and continuous reading in business, technological, and cultural history is the catalyst; and for which free-wheeling imagination is the substance.

Expertness must do what non-experts cannot or will not do. For this, expertness requires imaginativeness, creativeness, style, irreverence, skepticism, and forth-rightness in method, presentation, and policy recommendations. The analyst's ideas, findings, and proposals need not always meet the rigid test of quantified verification. In this area reports should not be preoccupied with appearances, with the bureaucratic notion that ideas and proposals be immediately testable, understood, appreciated, or even accepted by the analyst's colleagues or superiors. Indeed, a good blanket arbitrary rule in this respect might be that the higher the proportion of an analyst's ideas that are immediately and widely accepted and appreciated within the company, the greater the likelihood that they're not much good.

There's a strong preference among our understandably practical-minded business managers that policies and ideas should make sense in terms of their direct experience and that they should fit easily into the present scheme of corporate policies and practices. Management is skeptical about things involving unusual departures in methods of analysis, exposition of results, and implications of policy. But few really good ideas are so obviously good that they achieve immediate acclaim. They have to be fought for. This fact alone should be viewed by their originators as making them worth fighting for. Even if their value lies only in stirring things up, they serve an important purpose.

The commercial research staff is in the unusual position of having time, or being able to make time, to study problems and trends without the annoyance of making decisions about things arising out of a multitude of operating pressures. Commercial research staffs must view themselves as being in part responsible for what their statistics show. If the statistics have turned bad, staff must find out why, no matter what its assigned duties, and to recommend what be done about it.

It is at this stage that the function and limitations of statistics must be clearly understood. Statistics must not be permitted to confine recommendations to what statistics can clearly prove or support. They must be viewed as catalyzing staff's imagination. Social facts must be viewed as providing guideposts to drifts of change. And the analyst's expertness must be viewed as bringing to these data the responsibility to cultivate audacious insights where grovelling research cannot perform adequately or takes too long to perform at all. In short, commercial research must view itself as being responsible for what the statistics do and should do. Its responsibilities must encompass the duty to act courageously. Expertness must be viewed as encompassing the right to say what cannot be immediately proved and to say it with flair and forthrightness. Indeed, without flair and forthrightness ideas too often fail to catch on, even when merit is on their side.

If this prescription sounds like the technique of the hard-boiled, desk-pounding tycoon of yesterday, that is in part what is intended. The difference is that the expert researcher is presumed to have built a pretty solid foundation for what he says and believes, even though the foundation may not be demonstrable.

Having articulated the imaginative, research can then be directed to its study. In no case should a very proper respect for the objectifiable become a hindrance to imagination or become the sole arbiter of what is to be done. There must be a wider tolerance for the unusual personality and imaginative technician to make his own rules in commercial research. Management's job is not only to hire and encourage such a man; it must above all make staff responsible for what the statistics show in order to force it to be more searching, more daring, and more imaginative.

The Forms and Limits of Responsibility

There are, of course, limits beyond which it is silly to hold staff responsible for what happens to the statistics.

Actually, there must be shared responsibility at all levels of management and in all company functions. But one thing for which nobody can be held responsible is what happens to the economy as a whole. For example, if the economist predicts that gross national product will grow by four per cent each quarter during the coming year, he cannot be responsible for its going down the fourth quarter. What might be done, however, is to make him accountable for his error, even if all other economists in the country were similarly wrong. This is one of the things that is badly needed: a hard-boiled postmortem of economic and sales forecasts. Too many corporate forecasters get away with mistakes too easily. Management cannot get along without forecasters, but this does not justify complete freedom from accountability for their mistakes.

This form of freedom is especially surprising, and even reprehensible, in view of the great emphasis that corporate forecasters put on statistics and statistical methods. The statistics carry an air of scientific infallibility. That's often part of the forecaster's pseudo-scientific art. So much the more reason he should be required to explain when his science yields wrong answers.

The elaborate scientification of forecasting is another symptom of the failure of expertness that has been mentioned above. When forecasts are cast in the rigid mold of science, while the scientific requirement of controlled variables cannot possibly be fulfilled, the results are bound to be anemic, even if correct. There being no allowance for wisdom, intuition, and hunch — the ingredients which must take over when science has no more to say — the job is half done. If the expert can only say what the figures say, there's no need for an expert, only a technician. The fact is that in the social sciences the experts with the best record of achievement have always dared to go beyond formal statistics. They have been successful because their most important tool has been prophetic insight.

The point of all this is that again there is room for more imaginative treatment of commercial research, with the emphasis on doing more than the statistics permit, emphasizing what expertness is supposed to do with imagination, and holding research responsible for what its studies show.

No one argues with the increasing use and utility of statistics. Indeed, one really serious trouble in many corporate commercial research departments is the failure to keep up with the more difficult and involuted statistical and mathematical techniques being developed elsewhere. The problem unfortunately is that these methods have all too often resulted in the expert shirking his duty to speak when facts and statistics do not or cannot verify. The result has been the deadening of imagination, the extinction of spirit, and the abdication of serious responsibility for what the statistics show. But in this case it is well to recognize that the fault lies not with statistical methods but with statistical practitioners.

And in part the delinquency of the practitioners in this respect is because line management doesn't really want an imaginative and self-confidently vigorous research staff, with its possibilities for raising embarrassing questions and pointing accusing fingers. When management doesn't want vindication of opinions already formed, judgment already made, and steps already taken it often passes the buck of its own responsibilities by asking commercial research to produce impossible facts that will tell management exactly what to do about certain specific problems.

But commercial research cannot produce absolutely perfect information that points unambiguously to a given course of action. Anybody who says it can is overselling the commodity. All it can do is provide perhaps better information raw material. From then on management is on its own, doing what it gets paid so much more than staff for doing: that is, making decisions on the basis of incomplete information. That is what management is all about — taking risks. For it to insist on information that will "tell us what to do" is to insist on a spurious exactness. In effect it involves abdication of management responsibility.

Regrettably the insistence on tell-us-what-to-do type of information is becoming more common. Transfixed by the emancipating possibilities of commercial research, management increasingly withdraws into a protective integument of staff reports, turned out by people who have become conditioned to saying the commonplace and the innocuous — in short, to not rocking the boat. Under these circumstances it's hardly surprising that so many companies seldom ever get off dead center, that the snail's pace is the typical pace even in some of our supposedly dynamic companies, and that bright, energetic, uncorrupted individuals who really know what goes on inside the corporation always shudder at the contrast between its public image and reality. ■

Indiana Leadership Workshop Scheduled for November 8-13

The S.A.M. Indianapolis Chapter will host the S.A.M.-N.T.L. Workshop in Leadership Development, in a five-day meeting, November 8-13. The Morris Inn, located on the campus of Notre Dame University at South Bend, has been selected as the site for the Workshop.

Previously conducted by S.A.M. Chapters in Cincinnati, San Francisco, and Milwaukee, this Workshop has gained national recognition as one of the most effective methods to be devised in the area of management training. It uses the "laboratory" method of training which stresses the technique of giving participants a chance to learn more about themselves and to practice leadership skills in an environment which simulates on-the-job conditions. The Workshop consists of three main parts:

- A Leadership Laboratory where groups of 15 under the guidance of a Staff trainer study various behavior problems within the group for the purpose of increasing their understanding of group relations, improving skills of leadership, developing greater insight, and acquiring a better understanding of the behavior of others.
- Skill practice groups, where individuals have an opportunity to work on job cases and to analyze human relations problems through demonstrations.
- Information sessions, where the staff, through informational lectures, explain some of the things happening in the Laboratory group sessions and also bring-up-to-date information on findings in the field of social science research.

Registration fee, including tuition and all Workshop materials, is $200.00; room and meals are extra. Registrations, which are limited to 60, will be accepted on a "first come, first served basis." To register or to obtain more information, write to Mr. Norman F. Beisswenger, Standby Office Service, Inc., 130 E. Washington Street, Indianapolis, Indiana.

A good antidote for over-specialization . . .

ON MAKING THE CIRCLE

by Warren H. Young

MANAGEMENT has been accused of going around in circles. The aim of this article is not to change that habit but to recommend a purpose and a pattern to be followed. The purpose would be to make operation more efficient through analysis and integration of activities. The pattern, of course, is a circle.

Many industrial problems arise because specialization within industry has proceeded to the point where it is feeding on itself. Each area requires narrowly trained individuals and provides little opportunity for handling general problems.

So much is written about special areas of plant operation that individuals are reluctant to approach problems where they have no specific training. Understandably, they wish to avoid embarrassment. The specialists, in defense of their areas, cloud problems with a smoke-screen of confusing terms and techniques. The bulk of the verbiage concerning modern management may be designed to capture the imagination, inspire and impress management. The result, however, is to confuse, intimidate or overwhelm the uninitiated person.

In addition to this, rigid organization, bureaucracy, politics and disinterest all contribute to the erection of barriers between groups — even between the line and the staff which is supposed to serve it. Perhaps those people who specialize in coordinating the activities of the specialists are the ultimate in specialization. There must be an easier way to break down these barriers than to create more groups of specialists.

In looking for this easier way, management has been responsive to new ideas — both applicable and not. With the extension of specialization, they become even more vulnerable, with results as varied as the personalities proposing and disposing of the ideas. A good antidote for over-specialization is a Swiss tradition known as "making the circle."

• Analyze — and Begin Again

In an established organization, where this tradition is followed, the Swiss analyze each operation in detail — the method of performing the job, its relation to the other jobs, the equipment and the operator — and when the first operation is being handled to their satisfaction, they go on to the next. With this pedestrian approach, the responsible people and the best brains in the organization (not necessarily good brains, but the best they have) are systematically introduced to every activity. When all jobs have been analyzed, the circle is complete, and they celebrate with a dinner party and promptly start all over again.

While "making the circle" is a small plant tradition usually involving the owner, it should be possible for any supervisor to "make the circle" within his area of responsibility. It is not important where the circle starts, nor what sequence is followed. There is no measure or reward for depth, breadth or speed of completion. The important thing is the attitude that underlies this approach. It shows an appreciation of the role of management, a desire to be informed about every aspect of the business, and a willingness to assume responsibility.

Management, basically, rests on a philosophy. The techniques are only tools to achieve the ultimate goals. "Making the circle" should spread the basic philosophy through the

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organization, thereby promoting consistency — probably a good thing.

Through direct contact with the owner, it provides recognition for the employees and should make each operator feel that he is an important part of the organization. Employee relations research tells us that the employee regards the foreman or supervisor as "the company." This indicates that the same employee relations benefits would accrue to any organization provided that the person "making the circle" is the person with "authority." Furthermore, in this area there must be an industrial parallel to the old axiom that "there is no fertilizer like the foot of the landlord."

• The Circle and Wage Structure

One stumbling block suggestion systems often face is the reluctance on the part of employees to write down suggestions. In the face-to-face contact brought about while "making the circle," verbal suggestions can be offered by the person who knows the job most intimately — the worker — without fear of someone else receiving credit for his ideas or making a fool of himself.

Jobs in any plant are evaluated. They may be carefully analyzed before assigning a dollar value or someone may simply get a wage for doing a job with no attempt made at relating the two. When management is well informed about the requirements of each job, the individual worker, his performance and his environment, there is a greater chance of insuring the equity of the wage structure.

When "making the circle," added depth and breadth of experience is brought to the workplace. This experience can be relied on to detect substandard safety conditions or violations of industrial regulations. It can uncover problems which might go unrecognized, and it should reveal applications for new developments in the technology.

Efficiency in small operations is a difficult problem due to the cost of investigations vs. the potential savings. Idle time and waste can be hit directly when a department is subjected to scrutiny while making the circle. If there is not enough work to keep all the personnel actively engaged, it can be detected by any experienced supervisor who spends several hours a day, or more, in the area. In effect, a foreman can't ignore situations which should be corrected.

"Making the circle" will emphasize the interrelationship of the operations without reducing the importance of any one function. This is especially true of all quality control activities. They should be periodically reviewed from the point of view of the overall results desired and justified on the same yardstick that measures everything in the plant. Is it worth the cost? The person best suited for this analysis is the one responsible for the overall operation. "Making the circle" will tend to force an organization of the work and require decisive action by management. Very little should remain to happen by accident.

Short term vs. long term earnings and expenditures, tax advantages and other financial considerations must be part of any decision to acquire capital equipment. The constant review of all activity insures the use of the funds available in a reasonably effective way.

• Linking the Improvements

Methods tend to become dated. Yesterday's methods are often inadequate for today's production. Yet in every shop, problems are solved. Good ideas in one job can often be used in another. No surer way of transferring improved methods exists than in "making the circle."

Systems have a tendency to grow more complex and employees tend to introduce short cuts (and long cuts) on their own. Sometimes these methods are superior to those previously established by management and certainly the good ones should be recognized and perpetuated by management.

Systems, procedures, methods and, in fact, all changes in operations require follow-up. No improvement is 100 per cent perfect at the time of installation. A shakedown period is required to achieve the best possible results. By "making the circle," management is assured of continuing review to be sure the new techniques are as good in practice as they were when they were planned.

"Making the circle" requires a few words of caution. If the person who engages in this activity is not careful to enlist the help and cooperation of the employee and supervisor, initiative can be destroyed by interference. Delegation of authority can be restricted and as a result the organization can be badly damaged. Respect for authority can be lost.

Such results can be avoided partly by being aware of the pitfalls. Changes must be made through the supervisor and by the worker because they must accomplish the work after the manager leaves. Probably the first time around should be devoted to observation and gathering information. Later circles will provide the opportunity to improve each activity.

In reality, "making the circle" is a practical management audit. An audit of costs, performance, machine conditions, personnel utilization, methods and supervision. As such, it is not in conflict with scientific management but a systematic way of assuring that management is applied to every area of activity. Whether the management is scientific, systematic or intuitive depends on the company.

Few managers or supervisors would have the temerity to engage in a management audit even if they felt they had the time, but few would deny that their basic responsibility includes being sure that every job under their direction is running as well as possible within the limits of the budget.

A few hours each day or days a week spent in "making the circle" will pay handsome dividends. A supervisor does not have to be an engineer to question the "how" and "why" of a job, design a jig, or improve the layout, nor a systems analyst to eliminate a form, nor a forms designer to improve one. Neither does a person have to be a purchasing agent to know an item costs too much. Of course, complex technical problems require special training, but at least the foreman would know which staff group should be called on to solve the problem.

An organization must live and grow. New people are hired, new products developed, new techniques learned. Only by deliberately going into each job until satisfied that it is being handled as well as possible, can management be sure the plant is well run. Recognizing that "change" is natural, we must then go back over the same ground — endlessly — in a circle. ■

". . . large firms have become content to experience profitless growth rather than fight for increasing profits in a growing economy.

A Remedy for our Ailing Profit Motive

by DAVID S. MOFFITT

ONE OF THE most startling developments of the post-Korean era is the erosion of the profit motive in American industry. I do not mean to say that the American businessman no longer gives a thought to profits. But it is becoming increasingly obvious that his zeal for defending the economic system that gave the United States world leadership is wearing thin in the face of the all-take and no-give of those who think they have found the goose that lays golden eggs.

Every businessman has to face the annual and often humiliating examination of his profits by Federal taxing authorities. The greater his profits the greater his tax, and the situation has degenerated to one where play and counterplay consume the constructive energies of men who by all rights should be adding to the productivity of the economy and not defending the system that has made the economy what it is today.

Is it any wonder then that an erosion of the profit motive has taken place. It is becoming easier to forego justifiable profits than to undergo the frustrating wrangles necessary to keep them. Small companies by the hundreds are giving up the fight and are going out of existence either by liquidation or by being swallowed up by large firms. These large firms have become content to experience profitless growth rather than fight for increasing profits in growing economy.

Still no one seems to be seriously disturbed about all of this. During the recent recession very little has been said about the pitiful profit situation. Yet the profits that are not being earned are those that will be needed to create the jobs for the expansion envisioned in the 1960's.

It is not my purpose in this paper to present a defense of the profit system. History shows the superiority of our economic set-up over any other yet devised. Instead I would like to present a plan in the form of a tax change that will bring a halt to the erosion of the profit motive. I believe that if some incentive can be given for good performance expressed in terms of profits, the countless thousands of businessmen working individually will be able to combat inroads on the profit system of doing business and preserve our economic way of life for the growth in the years to come.

Tax reform is certainly not a new suggestion. As a matter of fact at the American Management Association's Economic Mobilization Conference in May, 1958, more than ten senior business leaders called for tax reform rather than tax reduction to combat the business recession. But I am afraid the tax reforms envisioned by those leaders would be ones that would reduce the amount of tax either by reduction of rates or by special interest gimmickry. These would, of course, tend to increase profits after taxes but would be of little inspiration to strengthen and improve the profit system.

My suggestion is to leave our basic tax structure as it is for the time being but to exempt from all taxes that part

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of a company's pre-tax income that is greater than that for any previous fiscal period. In other words, a company that can increase its pre-tax profits over any previously earned can enjoy the increased part of its income without tax. I believe that this would be a real incentive to all businessmen not only to defend their just profits but to increase their profits by sound, efficient management and not to grow just for growth's sake.

The best way to see how this idea stacks up against other tax reform plans is to compare them one by one. The most popular plan and the one that was actually introduced in Congress is the plan gradually to reduce corporate and personal income tax rates across the board over a number of years. The theory behind this plan is that the economy is growing and that taxes on a growing economy at reducing rates will provide constant revenues for the operation of the Government. It is argued that the taxes saved would provide the savings and investment required for the economy to grow. However, it seems to me that there is little in this tax plan to stimulate pre-tax profits, that is, to stimuate efficiency in manufacture and distribution. Yet for this plan to operate at all, pre-tax profits have to increase. In a growing economy, it is the so-called "growth companies" that make up the bulk of the net growth. This plan would seem to penalize these growing concerns two ways: first, by cutting taxes across the board the decadent firm is relatively better off than the growing company whose needs are greater, and secondly, in the money market the decadent firm can afford to outbid the growth company for available capital. On the other hand, the tax plan that gives a tax break to the firm whose pre-tax profits are growing actually stimulates the economy by giving these companies not only additional reinvestment funds but also a competitive edge in the money markets. This double barreled advantage should be a great incentive to all companies to increase profits by increasing efficiency. More than that it is an incentive for combating the forces that would eliminate the whole profit system.

Another tax plan which is finding increasing favor with both industrialists and lawmakers is the increasing of allowable depreciation rates. Depreciation is now allowed at a rate intended to match the economic life of an asset. However, because of inflation accumulated depreciation reserves are seldom adequate to replace an item of equipment once its useful life is over. If allowable depreciation is increased, the cash available to a company for reinvestment is also increased without being taxed. But if this plan results in a depreciated life of fixed assets that is less than the useful life, the plan merely postpones a tax liability and certainly is no incentive to increase pre-tax profits. If the purpose of the plan is to combat somewhat the inflationary forces on the cost of new buildings and equipment, wouldn't it be wiser in the long run to fight the inflationary pressures directly by increasing efficiency than indirectly and not very effectively with tax gimmicks? Furthermore, this kind of a plan favors the heavily capitalized industries over those whose fixed investment is lower and would appear to stimulate investment in hardware whose economic value would be questionable when subjected to normal depreciation rates.

There are variations of these two plans to reform our corporate tax structure, some giving more relief to one segment of the economy others to another segment. The net effect is about the same, some tax reduction unevenly available to various part of the economy, some uneven stimulation for additional investment, but in no case, as far as I can see, no real incentive to improve and defend profits.

The plan I suggest is available to all corporations regardless of size or type of endeavor. The plan recognizes the place of profit in our economic set-up and recognizes that growth in profits, not volume, is the only way to insure the growth of the economy. By economic operation, by carefully screening new capital projects for their economic usefulness, any corporate management can improve their pre-tax profits and avail themselves of an effectively reduced tax rate.

This drive for greater pre-tax profits will also have a very beneficial effect on the economy. First of all, this drive will be an effective antidote for the wage inflation we are experiencing that has been brought on by the annual wage increases guaranteed employees in existing union contracts. Forced efficiency and waste elimination will result in productivity increases that will keep pace with or even exceed wage increases. By forced efficiency I mean not only better use of equipment and control of factory costs but also a drive on such service costs as the clerical and distribution expenses that have skyrocketed during the past decade. By waste elimination I mean the dropping of such fringe expenses as lush expense accounts, company yachts and so forth whose productivity is certainly open to question. Increased productivity should help to ease the projected labor shortage in years to come.

Moreover, this tax plan actually should prove to be an effective contracyclical device because the booms and busts of prior years have all resulted from excesses of one sort or another. If industrial corporations are driving for higher pre-tax profits, investment in excess plant or inventory would be made only in the rarest of instances. In other words, because of the tax incentive in steadily increasing pre-tax profits, businessmen should become less inclined to speculate and more interested in sound, professional management of their affairs.

Administratively this tax plan should be advantageous both to corporations and to tax authorities. It seems to me that some controversial tax points that cause trouble now might be cleared up. For instance, a businessman could be allowed to set his own depreciation rate within reasonable limits. If he set it too high, he would lose out on the opportunity to get tax-free profits from growth. If he set it too low, his profits would be greater but so would the time taken to depreciate the property. In either case, the Treasury would collect about the same amount of taxes because of the tax-free feature on growth profits. The same line of thought could be applied to all the other categories of expenses over which executives and tax collectors have been wrangling for many years. This list includes capitalizing or expensing minor repairs and equipment, salaries of owner-officers, travel and entertainment, patent expense and many others. As long as a consistent accounting method is used, the government will collect about the same regardless of how these items are handled.

Mergers and spin-offs, too, appear to present little problem. With mergers pre-tax profits are just combined year by year to find the year with the highest profit above which the merged unit's profits must rise to get any tax-free income. With spin-offs the profits of the spun-off unit can be arbitrarily determined according to the valuation formula used in determining the worth of the separated enterprise.

Revenuewise, the Government would only lose the tax income from the real increase in pre-tax profits for the first year because tax exclusion would be granted only on that part of a firm's pre-tax income greater than that of any previous year. In subsequent years revenues to the Government could be adjusted as required by changing the tax rate without removing the incentive for American business to increase their pre-tax profits by becoming increasingly efficient.

All corporations were not created equal. To meet the challenges of the years ahead the United States needs the best corporations, the ones that can grow by meeting the advancing needs of the world both in quantity and advanced technology. History has shown that the best companies working freely for profits in our economy can outdistance industrial operations operating under any other economic system devised. We need to strengthen our profit system to stay ahead. We have to give recognition in the form of incentives to those who will make our profit system stronger by defending it and by making it work for greater productivity and technical advancement. I think a change in our tax laws would help to accomplish this. ■

"Public Consensus": Reality of Economic Democracy

by *Adolf A. Berle, Jr.*

To ESTABLISH our theory of legitimacy as applied to economic power in the American economy, we have had recourse to the conception of "public consensus." We have considered public consensus, if not as originator, certainly as final arbiter of legitimacy. We have suggested that this consensus has set up, and more or less continuously develops, criteria by which the actions and results of economic power, and the men who possess it, are currently judged.

Introduction of the conception of "public consensus" is more than a mere dialectic necessity in erecting a theory of economic power under the American system. Public consensus, though it is indefinite, almost completely unorganized, and without traceable form, none the less is a hard-core fact. Every corporation executive knows this. Public relations departments and counsellors of most of the large economic organisms continuously grapple with it. "Public opinion" is sometimes misleadingly used as a synonym. Actually, public opinion is a shorthand phrase expressing the fact that a large body of the community has reached or may reach specific conclusions in some particular situation. These conclusions are spontaneously, perhaps emotionally, reached, usually from unstated but very real premises. The "public consensus" is the body of these general, unstated premises which has come to be accepted. It furnishes the basis for public opinion. Public opinion is the specific application of the tenets embodied in the public consensus to some situation which has come into general consciousness. It is, for example, a settled premise in the public consensus that corporation officers ought not to deal with the corporations they dominate to their private profit; in other words, they should be singlemindedly honest in fulfilling their trust. Because of this, when the management group of any corporation is discovered in dubious double dealing, public opinion immediately applies the principle.

Public consensus obviously is not a spontaneous fact in the minds of many individuals. It is the product of a body of thought and experience, sufficiently expressed in one form or another so that its principles are familiar to and have become accepted by those members of the community interested in the relevant field. In our case, the field is that of power of economic organisms and administrators. It is therefore essentially a body of doctrine which has attained wide, if not general, acceptance. It is not omniscient; it constantly absorbs new thinking and draws new lessons from experience.

* * *

Who can apply this public consensus, translating it into public opinion in any given situation? Obviously it cannot be applied merely by the business community since that community is directly subject to it, though the views of leaders of the business community unquestionably enter forcefully into the consensus and their application of its doctrine is part of public opinion. But attempted application of public consensus by business groups to a specific case is likely to be suspect on the ground that such statement is self-interested. Of greater force are the conclusions of careful university professors, the reasoned opinions of specialists, the statements of responsible journalists, and at times the solid pronouncements of respected politicians. These are more likely to gain acceptance and influence events.

These, and men like them, are thus the real tribunal to which the American system is finally accountable. They are numerous. American universities are many and strong, and most of them are disinterested. These with the independent journalists provide a huge, informal, self-selected, but trained, panel. Their primary qualification is that their conclusions are dictated by their principles and by the use of their minds, and that their reactions are not and cannot be constrained. Taken together, this group, so long as its members are able to communicate their views, becomes the forum of accountability for the holding and the use of economic power. Collectively they are the developers of public consensus, the men first sought to guide the formation of public opinion to any given application.

Does this inchoate public consensus bear any relation to settled law? The answer must be that it does include settled principles of law applicable to economic power. But it also includes capacity to criticize that law. From time to time it may demand changes in existing law. It also carries capacity to insist that principles heretofore comprised only within the consensus must be added to statute or common law, enforceable by courts as well as by public opinion.

For, over and beyond the accepted or enacted provisions of law, the public consensus imposes standards of performance and conduct whose violation is likely to lead to serious consequences. One of these consequences is the near-certainty of political intervention by the State, usually in the form of investigation, enactment of a relevant statute, or emergence of a new rule through the common law courts. These standards some of us have christened "inchoate" law — rules of conduct whose disregard entails consequences almost as foreseeable as does violation of specific statutes such as the antitrust laws. One result is likely to be that the standards set up by consensus will suddenly be made into explicit law in case of abuse of power.

* * *

Can the public consensus, as it relates to the field of economic power or any part of it, be stated, written down, or otherwise laid out for the guidance of American corporations and their administrators? None has attempted the task. The relevant explicit law, of course, can be laid out, and legal writers do so. The principles of public consensus, some of which are well enough defined as to be inchoate law, have never been stated. Yet men in each industry are fairly aware of them. With time, effort, and thought, they could manage a quite tolerable outline of the public consensus as it applies to them. Few would wish to do so: there rests in the breast of every holder of economic power (as in the breast of the holder of every other power) a vague hope that the rules of the game will never be applied to him, and a strong desire not to extend these rules if it can be avoided. But I think the time will come when manuals will be needed and will be produced. These will in effect be the systematized recording of experience and of attitudes, leading to the conclusion that in many areas actions or results apparently permissible under the rules of technical law are not acceptable according to the standards and principles of the public consensus.

This is the reality of economic democracy in the United States.

(Reprinted, with permission, from "Power Without Property: A New Development in American Political Economy" by Adolf A. Berle, Jr., Harcourt, Brace & Company, 1959, $3.75).

The Influence of Managerial Decentralization on Personnel Relations

by EDGAR G. WILLIAMS

"In personnel relations staffs, managerial decentralization appears to be more of a goal than a reality."

MANAGERIAL decentralization has become one of the most widely discussed facets of modern organizational development. To some executives it is a fad. To others it is an important element in their personal philosophies of business management. Called variously a technique, a process or a philosophy, in itself, it appears as a problem in organization structure to one person while to another it is simply a practical exercise in the best use of authority. Attitudes toward it, both pro and con, cover a wide range.[1]

Managerial decentralization is a way of getting the powers to act and/or to decide in respect to the management process *located* and *used* at the lowest organizational levels consistent with company objectives and policies. Management is defined as the process of accomplishing an objective through the intelligent use of human effort. It consists of the determination of objectives; planning to achieve them; organizing to put the plan into effect; motivating the people to act; and then controlling to assure proper performance of the planned activities.

Research for a previous article[2] exposed several interesting and provocative questions in respect to the probable effects of managerial decentralization upon the internal operations of a busi-

[1] *See, Helen Baker and Robert R. France,* Centralization and Decentralization in Industrial Relations (*Princeton, New Jersey; Princeton University,* 1954) *pp.* 30-31.

[2] *Edgar G. Williams, "Strategic Factors in Managerial Decentralization"* Business Horizons—A Special Issue of the Indiana Business Review (*Bloomington, Indiana, Indiana University Bureau of Business Research, Vol. 32, June,* 1957) *pp.* 68-78.

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"... new problems for the personnel executive ..."

ness. One of those questions stimulated the additional research upon which this discussion is based.[3] It was, "What are the effects of managerial decentralization upon staff organizational units such as personnel or industrial relations?" Or, to put it more simply, "What is the influence of managerial decentralization on Personnel Relations?"[4]

Trends

Although it must be emphasized that our observations and conclusions are somewhat tentative and subject to the need for more intensive research, it is believed that they will be of general interest and value to both students and businessmen.

If the same things are happening throughout industry as in the companies which participated in this research project, future study of the problem will reveal among other things:

- *An abundance of policy formulation and interpretation and problems.*
- *A confusing welter of authority—responsibility—accountability relationships.*
- *Extended use of "participative" devices such as committees and conferences.*
- *Introduction of "pure liaison" units in personnel organizations.*
- *Greater centralization for certain functions such as manpower research and controls, labor relations and employee services.*
- *New communication and coordination problems.*
- *Managerial decentralization within personnel staffs currently is rather illusory.*

[3] *Conducted through a post doctoral fellowship grant from The Ford Foundation.*

[4] *Personnel Relations, Employee Relations and Industrial Relations used interchangeably.*

Evolution of Personnel Function

Staff organizational units normally develop by splitting functions into areas of greater specialization. Either managerial or operative in nature, considered as secondary business functions and located in secondary chains of command, these specialized activities should contribute economy and effectiveness to the primary line activities which are accountable for the creation and distribution of customer goods and services. Such staff activities result in values consumed internally by the rest of the organization. Their continued existence is justifiable only in terms of their specific contributions to profit and personal, service and social business objectives. Managerial specialization of a staff nature may take different forms; yet it has to do either with the coordination of ideas or with the coordination of action. In either case it involves a delegation of authority from line management.

The personnel relations organization has to do with the coordination of ideas as compared to production control which has as its main purpose the coordination of action. These ideas relate to the procurement, development, utilization and maintenance of an adequate work force. Like advertising, purchasing and product engineering, personnel is often considered to be a technical staff activity which requires a highly trained professional specialist to administer it properly. At any rate, *effective personnel relations staff work should result in a sound program to be initiated and maintained through careful coordination of line-staff relationships for two purposes: increased productivity and increased personal job satisfaction.* It is apparent that most business executives feel that the ultimate responsibility for practicing proper personnel management should rest with line managers.

The personnel function evolves through a distinct series of phases as it takes on identifiable staff characteristics. Sometimes it approaches a completely functionalized stage—at least for certain specific sub-functions. When this happens, the particular function is invested with the same type of ultimate authority that is generally reserved for line units.

The opinion has been advanced in various places that perhaps one effect of managerial decentralization may cause some of the responsibilities for personnel work to be reintegrated into line managerial jobs from which they were differentiated at an earlier stage of organizational growth.

Objectives of this Study

These, and other related thoughts, served to stimulate interest in setting up this study with the following objectives in mind:

- *To discover the nature and scope of organizational changes in personnel relations necessitated by attempts to decentralize either general management or the personnel function, itself.*
- *To determine the extent to which personnel activities have become completely functionalized or reintegrated into line managerial jobs.*
- *To become familiar with the problems created for top personnel executives as they adapt their organizations and programs to managerial decentralization.*

Guided personnel interviews with top personnel executives at the corporate level in a dozen large scale manufacturing, retailing and wholesaling organizations having had some experience with managerial decentralization resulted in increased knowledge concerning organizational adaptations, problems and their solutions, and areas for subsequent research.

Decentralization and Company Growth Patterns

Managerial decentralization in the primary chains of command has been accomplished to some degree within all of the companies. The extent of it varies from company to company as well as between major divisions and other units. Experience in decentralization appears to vary, too, with the pattern of organizational growth for each individual concern. The length of decentralization experience ranges from over thirty years to less than two years in the concerns being studied.

In companies that consist of several small, semi-independent, geographically dispersed units at a very early stage, top leadership has had to deal with the problem much sooner than in those which consist of only one or a few closely located organization units. Management in companies that have grown primarily from internal expansion due to increased market, innovation or product diversification rather than by merger or acquisition of subsidiaries usually have retained a relatively high degree of centralized decision-making and control. This has been true until span of control problems or executive turnover problems have started to plague their leaders. One or two companies in the group being studied are notable exceptions to this, because individual executives at an early date espoused managerial decentralization as a means of encouraging initiative, improving coordination, and stimulating the personal development of individual managers.

It should be noted, too, that attempts to establish a corporate identity have not been made in every case where subsidiaries are concerned. The result has been to create or to aggravate several problems in respect to securing uniform formulation, interpretation and application of personnel policies. Most of the executives interviewed thought such uniformity desirable.

It is believed that the observed lack of uniformity in administering personnel policies causes much concern to top personnel men. There appears to be marked inconsistencies between executive intent and everyday practice in pushing decision-making downward toward lower organizational units and getting really effective participation by subordinate personnel.

The delegation of authority without extensive participation in decision-making is of little avail in managerial decentralization. As one executive put it, "Delegation of authority and active participation by subordinates are the handmaidens of real managerial decentralization". Why, then, should there be such inconsistencies? These personnel executives were of the opinion that they were due to three things: (1) the normal time lag between policy making and operating, (2) a lack of understanding of what decentralization was all about on the part of other managers or (3) simply due to the somewhat natural human reluctance toward change.[5]

Organizational Adaptations

The degree of decentralization within the personnel relations function, as in the line, is evidently influenced by the overall growth pattern of the company. It may appear to parallel structural development elsewhere in the organization, but quite often comparable delegations of authority and opportunities for participation are not forthcoming. For example, divisional, departmental and plant personnel staff units may be set up at various organizational levels as part of the vehicle through which leadership expects to make managerial decentralization work. Yet, in a few situations, due to certain established authority-responsibility-accountability relationships, there is no continuum of communication or coordination among them.

The top executive contacted in each of the corporate personnel staffs reported directly to the president, executive vice president, or to a major functional head. All agreed that, in the usual sense, the ultimate responsibility for maintaining sound personnel management should rest with those executives having line authority. *A majority feel that it is impractical to attempt to decentralize personnel management staff activities to the same degree as most other major functions because personnel policies and practices tend to ignore departmental and divisional boundaries*—especially those pertinent to retirement, insurance, salary plans and labor relations practices.

Little conscious effort is being expended toward returning personnel responsibilities to the line organization. In fact, generally speaking, the flow of work appears to be in the opposite direction. A national retail company and a national wholesale distributor are exceptions due to their historical growth patterns wherein most of the operating responsibilities for personnel management have remained in the local manager's assignments.

One large manufacturing concern has been spending a great amount of time and effort attempting to build the prestige of first line managers through formal training programs and various participative devices designed to develop their willingness to accept greater personnel responsibilities.

In another case, almost complete functionalization has been achieved for certain personnel activities with final authority for them being invested in a functional executive position. This is a rather unusual arrangement wherein all personnel relations activities are the concern of the functional executive in charge of personnel except labor relations which is considered to be in the province of the functional head of manufacturing. Based somewhat on the personalities involved, this organizational relationship is rationalized in that concern on the basis that most of the employees are in manufacturing hence labor relations properly belonged there.

Most of the executives consider it their responsibility to give advice, assist in coordination, provide technical personnel "know-how" and to evaluate or audit the entire personnel relations program. Two men expressed the opinion that too much authority for personnel matters has been passed downward to subordinate personnel organizational units with a resultant loss of proper coordination and uniformity of action.

The working relations among corporate personnel staffs and their counterparts in lower echelons vary from one company to another and often from division to division. In some, there is a conventional line-staff authority-responsibility relationship throughout. In others, functional authority for specific functions is retained at the corporate level. In one company, corporate personnel assistance is available only for major

[5] *For an illuminating related discussion see, Robert N. McMurry, "The Case For Benevolent Autocracy," Harvard Business Review, (Vol. 36 No. 1, January-February, 1958) pp. 82-90.*

licy matters affecting the entire or-nization or for special projects as-gned by top level line managers. ross-the-board assistance is available all subordinate units only upon their quest in still another. In one, the inciple of compulsory staff advice is effect.

In general, corporate personnel exe-tives give the impression that they are sirous of working with and through line organization by giving whatever rvices they can to lower units so that rsonnel decisions may be made locally. hen, only where decisions are athwart rporate policy or clearly not in the st interests of the company will they trude or seek to have them amended revised at the top management level.

Several executives emphasized the ed for retaining excellent informal lationships among management per-nnel in order to facilitate the coordi-tion and participation that, in their inions, were so important to mana-rial decentralization. One said, "We ust learn to work through people ther than depending so much on au-ority to get the job done."

Policy making, promulgation and in-rpretation are integral parts of corpo-te personnel staff responsibilities in ractically all cases, along with the as-gnment for overall direction and co-rdination of the personnel program. ther responsibilities tending toward a igh degree of centralization are those volving the administration of labor lations, benefit plans, college recruit-g and executive appraisal and devel-pment programs. Personnel research, ntral manpower records and organi-tional planning are also functions in hich a large measure of centralization retained. Wage and salary research nd administration are considered as rporate responsibilities in over fifty er cent of the companies. *Labor rela-ions is centralized more often than y other specific function although the ecutives differ substantially in their inions as to whether or not the func-on is handled best in that way.*

Decentralization appears to cause ore extensive use of committees de-gned to help in coordinating both olicy and operation matters. Yet, very ttle was learned about them except that some companies a veritable hierarchy personnel committees has developed -some charged solely with giving ad-ce and/or making recommendations— ther with differing degrees of deci-sion-making authority. *Committee decisions in one company had to be unanimous.* This accounted for the charge, by one executive, that "we don't get decisions fast enough because we've got too many committees."

Problems and Practices

Managerial decentralization causes new problems to develop in personnel relations just as it tends to aggravate existing ones. It certainly serves to highlight the need for clearly established objectives, policies and procedures along with their proper interpretation at each echelon. It appears to press for more formalization in personnel programming as the need for clarity in authority-accountability relationships among line-staff units as well as among personnel units becomes increasingly apparent very soon after decentralization is started.

The executives feel that their number one problem has to do with establishing and maintaining effective communication and coordination relevant to personnel matters. *Writing the objectives, policies and procedures and establishing the scope of their particular programs, then exchanging information with proper interpretations for all subordinate units, does much to clarify the role personnel staffs must play in the respective concerns.* In three companies, personnel executives have gone another step.

They have prepared linear responsibility diagrams, or the like, in order to define precise limits of authority for specific personnel functions and subordinate managers. It is interesting, too, that one individual manager takes the position that such stringent limits on authority are undesirable and in his opinion serve to hamper communication and coordination with a loss in executive flexibility and initiative.

Other companies are trying different methods. In "X" Company, no one in the employee relations organization is restricted communication-wise by organizational channels. Ostensibly, there is complete freedom to contact people at any and all levels so long as the individual informs his immediate superior and the superior of the person he is going to contact concerning the purpose and nature of the contact. Management students will recognize this as an application of Fayol's Bridge concept.

The problem of communication and coordination is so great that in another instance a new type of organizational unit has been devised to help cope with it. It might be called a "pure liaison" unit. An Assistant Manager for Employee Relation's position has been established primarily for the purpose of effecting liaison among the heads of that function located in the several divisions and subsidiaries of the company. This appears to be a new development in personnel organization structure although it is known to exist in engineering units in at least a half dozen manufacturing firms.

Personnel executives feel that they have a major problem in getting line personnel, particularly, to seek and to accept their advice and assistance. The use of outside consultants who actually compete with the personnel staff for certain services makes this a most realistic problem in one company. The consensus appears to be that the solution to the problem is to do a better job on all assignments and let the results do the talking. In "Y" Company the problem had been "solved," in the opinion of the top personnel executive, by instituting the principle of compulsory staff advice. In two other instances, the point was made that perhaps personnel people do not do a good enough job of making known to all concerned the types of services they are equipped and willing to perform. Again, a communication problem, it appears.

Getting staff members at the corporate level to understand the differences among administrative work, developmental work and operative work where internal decentralization has occurred within their respective units is another problem. Intra-departmental conferences are being used most extensively in attempting to meet it.

The installation of subordinate personnel units with the delegation of authority that goes to them brings along other perplexities for the headquarters group. Staffing of these units with people having adequate skills and abilities; getting out of operating decisions; developing a sense of responsibility for personnel matters within the subordinate unit; and the tendency for subordinates to put off action are still other problems facing most corporate personnel staff executives.

Managerial decentralization in the personnel function forces personnel managers to consider the problem of deciding which functions can be handled most effectively on a localized basis. Employment, safety, health, and training responsibilities are usually found

to be localized more often than any of the others due to the direct influence of local environmental factors upon them.

There is another highly significant problem that should be mentioned because of the increased emphasis being put on it. How can the results of a personnel program be measured? Even with the usual statistics, personnel audits, Employee Relations Index and other indices, this question has not been answered satisfactorily according to most of the executives interviewed.

Functional decentralization as well as the establishment of "profit centers" increases the importance of finding ways and means of determining the values being contributed to the total effort by each unit—personnel being no exception. *The greatest possible contribution to the entire profession in the future could well be the solution of this problem of evaluation.*

Areas for Future Research

These are not the only problems highlighted by attempts at managerial decentralization but they appear to be the most prevalent ones. At any rate, they serve to introduce several interesting questions which can be answered only through additional research and analysis.

Among the most provocative are these:

- *Are the results of this study typical of other companies?*
- *Are other staff functions affected by managerial decentralization in the same way as personnel relations?*
- *What are the fundamental differences between local applications of personnel policies and the intentions of top management policy formulators?*
- *Does managerial decentralization make personnel programs more or less desirable and/or effective?*
- *What can be done by personnel administrators to get ready before decentralization actually takes place.*
- *How might the problems of coordination best be attacked under conditions of decentralized management?*

Summary and Conclusions

Conclusions from exploratory or pilot studies such as this must be carefully assessed in order not to give them a higher validity than they actually merit. Consequently, no claims can be made that the findings represent any concerns other than those which cooperated in the study. With this in mind, the following points are worthy of consideration:

- *Managerial decentralization in personnel relations staffs does not proceed as fast as it does in the line organization. It appears to be more of a goal than a reality.*
- *The historical pattern of organizational growth exercises a strong influence on the degree of decentralization found in personnel staffs.*
- *Managerial decentralization in the primary chains of command causes certain new problems for the personnel executive and aggravates others.*
- *The need for clear authority-accountability-responsibility relationships becomes apparent at an early stage in managerial decentralization. So does the need for written objectives and policies.*
- *Communication and coordination problems take on increased significance when management is really decentralized.*
- *The flow of personnel relations work is toward the staff units rather than toward reintegration into the line.*
- *Decentralization in personnel relations is accompanied by a rather high degree of centralization for some specific functions—particularly those that cut across division, department and plant lines. Which specific ones are best handled in one way or another remains pretty much an open question in most cases.*

Managerial decentralization has a forceful impact of varying intensity upon personnel relations organizations and programs.

Corporate personnel executives are confronted with many new problems in adjusting their plans and policies to complement their subordinate functional associates in order to render the best possible support to the line organization. Organizational adaptations are but part of the solution in making decentralization work most effectively. Real, active participation in personnel policy-making and decision-making must also be fostered at every organizational level with enough centralization of authority to guarantee equality and consistency in the administration of personnel matters.

Reintegration of personnel staff activities back into the line functions is not a widespread phenomenon under managerial decentralization. In fact, the movement of functions appears to be in the other direction, i.e., toward the personnel staffs. This means that decentralization tends to increase the scope and complexity of personnel relations programs. At the same time, it increases the need for competent professional personnel who must be able to shoulder a larger share of the responsibilities for increasing participation, productivity, profits and personal satisfaction. ■

Guest Editorial...

MANAGEMENT ACTION TO IMPROVE GOVERNMENT

Writing for the August issue of 'ADVANCED MANAGEMENT', William L. McGrath, Chairman of the Board of the Williamson Company, Cincinnati, Ohio, said — "Up until recently, businessmen thought they had no time to concern themselves with politics . . . Today, businessmen are concerned about politics—concerned and alarmed." In the same issue Roger L. MacBride, National Director of Civic Affairs, announced that the Society for Advancement of Management has developed a comprehensive course covering political and governmental affairs as related to business.

It is not a coincidence that these two articles should appear simultaneously in our magazine.

There has been a rising tide of determination on the part of businessmen to actively accept their responsibility for the kind of government we are to have in this country. The list of business organizations making themselves heard on the subject of politics is growing daily.

We as business leaders are concerned with the rising dependency on the national government for the solution of local and individual financial problems. This dependency has resulted in rising taxes year by year, and a constantly growing national debt. We are concerned that special interest groups are influencing political decisions by organized pressure. We are concerned that some of our best men in politics have lost elections because they tried to think and vote in terms of the long-range good of the country as a whole, rather than slavishly following the politically popular line.

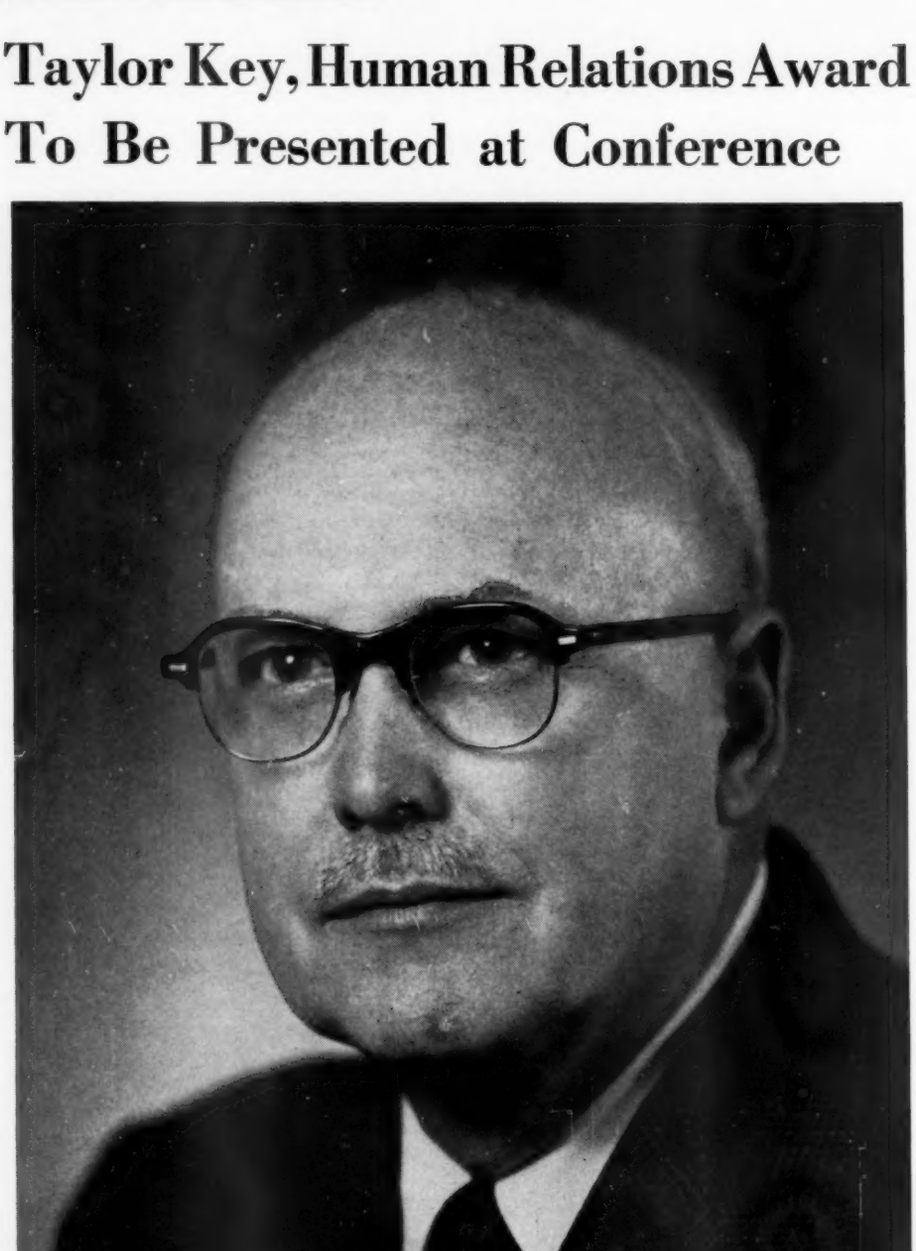
It is our opinion that political activity is a part of the expanding responsibility of business leadership. We are offering our program for "MANAGEMENT ACTION TO IMPROVE GOVERNMENT" to assist management people in obtaining a genuine understanding of political affairs. We expect that the participants will be equipped to bring about better government as a result of these studies.

We strongly suggest that you avail yourself of this opportunity through your local S.A.M. Chapter.

James E. Newsome
First Vice President
S.A.M.

S.A.M. News and Notes:

Taylor Key, Human Relations Award To Be Presented at Conference



Ralph Currier Davis

THE Society for Advancement of Management National Awards Committee has announced that the Taylor Key recipient for 1959 will be Ralph C. Davis; and that the Human Relations Award for 1959 will be presented simultaneously to William Witte, Charles W. Punton, Donald E. Farr and David N. Wise.

Taylor Key Recipient

Ralph Currier Davis is Head of the Management Division and Professor of Management, Ohio State University, a post he has held since 1930. Like Frederick W. Taylor, he is a well known management consultant and licensed engineer. A prolific author and scholarly researcher, he has enriched the science of management with many principles and procedures that today are accepted *de facto* throughout the management field in this country and abroad. His former students are found in the topmost ranks of industry and education throughout the free world.

He served with honor and distinc tion in both world wars: Ensign in th U.S. Navy in World War I, Lt. Colone in the U.S. Air Force in World War I He is a former president of the Acad emy of Management and since 1942 has served S.A.M. in many capacities his most recent post being Vice Presi dent for Research and Development He has been a Distinguished Visitin Professor at several universities. In th Spring Term of 1960 he will be For Foundation Distinguished Visiting Pro fessor of Management at New Yor University.

Among his books are the following *Principles of Factory Organization an Management* (1928); *Purchasing an Storing* (1931); *Fundamental Consid erations in Organization and Syste* (1934); *Principles of Business Organi zation and Operation* (1935); *Princi ples of Industrial Organization an Management* (1940); *Fundamentals o Top Management* (1951); *Industri Organization and Management* (3r Ed., 1957).

Human Relations Award Recipients

Each of the following will receiv the Human Relations Award in virtu of his outstanding services as part o a team devoted to improving the man agement and operations of the work shop activities in the Pittsburgh Branc of the Pennsylvania Association for th Blind:

William Witte, Vice President, Jas H. Matthews and Co., Pittsburgh, Pa. a member of S.A.M. for fifteen year

William Witte

nd a past president of the Pittsburgh hapter. He is currently Vice President nd Chairman of the Workshop Com-ittee, Pittsburgh Branch, Pennsylva-ia Association for the Blind, respon-ible for rehabilitation and employment f the blind.

Charles W. Punton, General Man-ger, B. F. McDonald Company Divi-ion, Mine Safety Appliances Co., Los ngeles, California.

A professional industrial engineer, is career has largely been devoted to

Charles W. Punton

esigning and directing the manufac-ure of items related to the safety and rotection of people at work. During is years in Pittsburgh he gave a great eal of time and talent to one of his avorite projects: helping blind people o help themselves.

Donald E. Farr, Vice President in harge of the International Division, H. B. Maynard and Co., Pittsburgh, a.

Donald E. Farr

A leading management consultant, his engineering and organizational skills have found expression through many avenues including industry, the universities, authorship, and the United States Army where he achieved the rank of Colonel and was decorated by the American, British and Brazilian governments for his contributions to directing the movement of expeditionary forces during the war years. He is a past director of the S.A.M. Pittsburgh Chapter; a section director of A.S.M.E., and a director of the Pennsylvania Association for the Blind.

David N. Wise, Manager, Applied Research and Engineering, Safety Products Division, Mine Safety Appliances Co., Pittsburgh, Pa.

Fellow in S.A.M., he has been a member of the Society sixteen years; has held each elected office in the S.A.M. Pittsburgh Chapter and currently is National Vice President in charge of Senior Chapter Operations, including regional reorganization throughout the Society. He is a member of the Armed Forces Chemical Association, the American Society for Quality Control, and serves on the Board of Directors of the Pittsburgh Branch, Pennsylvania Association for the Blind.

The above recipients, along with other civic-minded people of Pittsburgh, gave their time and talents freely to the Association for the Blind in a project that began in 1951 and is continuing. They represented S.A.M. and selflessly spearheaded an organized approach to bring the latest and best in scientific management to the noble work of the Association. A quick summary of this eight-year project shows that the Workshop Division of the Association no longer draws money from its reserve, is now employing more blind workers, has increased wages, enjoys good industrial relations, has increased productivity, reduced inventory, and is solvent.

David N. Wise

University Division

URING the past academic year the Hamilton Watch Membership wards ("in recognition of achieve-ent in advancing the art and science f management and of contribution to e growth of S.A.M. through the hapter's significant growth in mem-ership") were earned by seven Uni-ersity Chapters which, in turn, ward ed the electronic watch to the roup's most contributing member.

The winning chapters were: Georgia Institute of Technology (first in total membership and in absolute membership increase); Pennsylvania State University (second in total membership); in percentage increase, Wilkes College (first), University of Bridgeport (second); and University of Baltimore, Sacramento State College and Northeastern University for significant absolute increases in membership.

James Hardee, president of winning chapter at Georgia Tech, looks on as Dean of Students George C. Griffin presents Hamilton Award to Kenneth M. Carter.

In 1958-59 a new record in membership growth was set with a total of 153 Chapters (16 new) and 10,700 members.

General Leslie R. Groves, Remington Rand Division of Sperry Rand Corp., Stamford, Conn., will present the Remington Rand Performance Awards to the winning Chapters under the Performance Awards Plan of the University Division at the banquet to be held during the Fall Management Conference of the Society on Thursday, October 29, in the Hotel Statler, New York City. Greetings will also be brought by Robert F. Wilson of the Hamilton Watch Company. Special University Chapter sessions have been arranged for Friday, October 30, the second day of the conference.—*Professor Harold Fisher, Vice President, University Division.*

HAMILTON AWARD PRESENTATIONS (Reading Clockwise):

University of Baltimore: **Left to right are John Szymaszek; Ralph Bond; Dr. Clifford C. James, Dean of School of Business, Industry & Management and S.A.M. Regional Vice President; Paul Thomas; John Marvel, Chapter President and Recipient; Wayne Morris; and Ronald Morris.**

University of Bridgeport: **Professor John W. Ross, Faculty Advisor, presents award to John F. Anglace Jr., right. Looking on is Chapter President Anthony R. Presutto.**

Pennsylvania State University: **Dr. Ossian MacKenzie, Dean of the College of Business Administration, presents award to William Hewlett. At right is Dr. Rocco Carzo, Jr., Faculty Advisor.**

Northeastern University: **Professor Lyman A. Keith, Faculty Advisor, congratulates John J. Durkin, right, in the presence of Joseph D. Ward, Massachusetts Secretary of State and guest speaker at the chapter's annual banquet.**

Sacramento State College: **Left to right are Neal Charbonneau, Chapter President; Dr. J. H. Chruden, Faculty Advisor; Frank W. Pangborn, Jr., recipient of award; and Charles Simmons, former chapter president and senior chapter coordinator.**